

Sector:

Agriculture

Project Title:

Contract Farming

Project Description:

Contract farming (CF) is a well established concept in developed nations. Although relatively new in India, it is rapidly gaining popularity and is being increasingly practiced across the Country. Leading industrial houses, especially for whom agriculture produce forms an integral part of processing functions, has evinced significant interest in the practice.

With a well established agriculture practice, India presents vast opportunities for contract farming industry and companies across the globe are keenly evaluating the value proposition offered by various States in the country to practice contract farming.

To assist Madhya Pradesh (MP) realize present and upcoming opportunities in contract farming, the Government of Madhya Pradesh (GOMP) is keen to facilitate the development of a thriving contract farming industry in the State.

In this regard, the GOMP invites participation from the leading national and international agro products companies, agri-export houses, food processing, and pure play contract farming firms to engage in mass practice of contract farming in MP.

Under the development option, the private player would enter into “Contract agreement” with individual farmers (with substantial land holding) or with a consortium of small farmers. The contract would unambiguously specify the terms and conditions pertaining to contracted acreage, quantity, price schedule, payment modalities, delivery schedule and other relevant concerns.

The farmers entering into contractual arrangement would dedicate their farms for specific crops and would be responsible for their cultivation, harvesting, primary processing and delivery. They would also be responsible for the day to day functioning and management of the farm.

The private partner would be responsible for planning in terms of crop rotation, product selection, grading & quality control, final procurement, logistics etc. Further, the private partner would assist the farmers by disseminating modern farming techniques providing access to high-end tools and machineries to facilitate mechanized farming on large scale.

Further, financial support and vital technical know how's (to improve quality &

Quantity of produce) would also be provided to the farmers by partnering with financial institutions, insurance firms and agriculture technology companies.

Following would be the key activities practiced under contract farming:

- Seed multiplication
- Organic foods, Vegetables and fruits
- Aromatic, herbal and medicinal plants
- Floriculture
- Exports specific crops

Project Rationale:

Contract farming offers a revolutionary business model which addresses the key concerns of the industries as well as the farmers and provides substantial benefits to both, without compromising the interest of other.

Contract farming offers ample scope of backward integration (to control supplies) for industries without investing large amount of capital in creating physical infrastructure. Under “forward agreements” the private investor has access to large tract of agriculture land for mass cultivation of specific crops. Further, quality standardization of final produce is possible by incorporating sufficient checks over the farming inputs such as seeds, manure etc. For farmers it provides an assured market, access to modern tools and technologies, competitive pricing and high value margins.

The key benefits offered by contract farming to the private investors are:

- Assured supplies of raw materials and other inputs which facilitate stabilization of supply chain functions.
- Greater control over the quality of produce.
- Backward integration imparts greater cost efficiency due to operation synergies, economics of scale and increased control over supply chain functions.

Among all the States in the Country, contemplating to embrace contract farming as a key value add to agriculture, MP offers an enviable value proposition for the investors interested in the practice. The State has a well established agriculture sector with nearly 75% of the rural population engaged in it. The State has large tract of fertile land and abundant human resource which provide economic workforce for labour intensive sector such as farming. Further, the Strategic central location at the heart of the country facilitates logistics and distribution function necessary to maintain an uninterrupted supply chain of agro and agro goods dependent industries.

Contract farming has already made a foot hold in MP and is being practiced by

FMCG major Hindustan Lever Ltd (HLL) in collaboration with Rallis and ICICI. Under the system, Rallis supplies agri-inputs and know-how, ICICI finances (farm credit) to farmers and HLL (which require farm produce as raw material for its food processing industry), provides the buyback arrangement for the farm output.

The presence of leading corporate players has further augmented the investor confidence and MP is well positioned to garner large share of upcoming opportunities in contract farming.

Market Potential and Demand Dynamics:

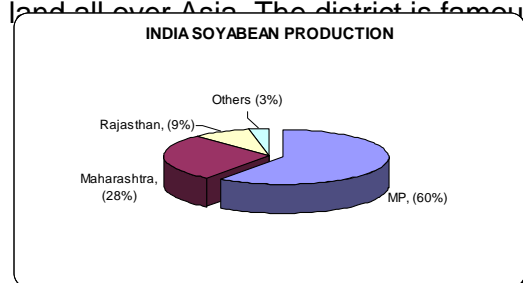
Realizing, immense advantages of contract farming practice, leading industrial players are keenly eyeing opportunity spectrum across various states in the Country. Presently, leading corporate players such as Reliance, ITC, Godrej and Pepsi are leading the contract farming initiatives in the Country.

MP offers substantial advantages for private investors interested in contract farming. It is the second largest State in the Country with an estimated population of about 60 million. Agriculture is a predominant sector in the State, contributing almost one third to the State GSDP, the sector forms the backbone of the MP's economy and offer vast opportunities for emerging concepts such as contract farming.

The State has 5 crop zones, 11 agro climatic regions and 4 soil types, which add to the biodiversity in the State and acts favorable for the production of various agriculture and horticulture crops.

Cereals	Wheat, Sorghum (Jowar), Maize, Paddy
Oilseeds	Soybean, Mustard, Linseed
Pulses	Gram, Pigeon Pea (Tur), Lentil (Masoor)
Vegetables	Green Peas, Cauliflower, Okra, Tomato, Onion, Potato
Fruits	Mango, Guava, Orange, Papaya, Banana
Spices	Chillies, Garlic, Coriander, Ginger, Turmeric

Madhya Pradesh is the largest producer of pulses and oilseeds in the Country. The State has a major share of the national agriculture production. About 25% of pulses and 40% of grams are grown in the State. The State is the largest producer of soya bean and gram and the second largest producer of jowar and masoor in the Country. The agricultural land in the district Narsinghpur is considered to be the most fertile land all over Asia. The district is famous for its rich agricultural production.



The State leads in spices production with the largest production of garlic, accounting for 37% of the total national production. It is the second largest

producer of coriander in the Country. Further, its share in the total national production of Pea is 15 %.

The commodities that have an immense production potential are potato, spices (in the western parts), pulses (in the central part of the State), wheat (in the western and central regions) and oranges (south districts). Thus MP has a significant and diversified product portfolio of agriculture commodities for domestic consumption, industrial processing and exports.

Why Madhya Pradesh?

- MP is the most biodiverse State in the Country with 11 agro climatic zones, 5 crop zones and 4 zones varying in soil types.
- The soil and agro climatic conditions are suitable for rapid agricultural development.
- The State has a strong base in horticulture.
- The State is in the centre of nation's commercial activities. It is located at an easy distance from all the major agricultural markets in India.
- About 75% of the population of the State is largely dependent upon agriculture for their livelihood. This ensures ample availability of economic manpower.
- The State has a large network of primary agricultural co-operative societies, which plays a crucial role in supplying agricultural inputs including seed, fertilizer and pesticides in the far flung areas.
- The State has sufficient notified agricultural market yards and sub market yards which provide facilities for sale of agricultural produce.
- The State has a well developed mandi system with 299 small and large mandis distributed across the State.

Location Analysis:

Various potential locations have been identified across MP to facilitate contract farming. Few crop specific location are as follows:

Commodity	Preferred Region	Industrial Use
Potato	Indore, Ratlam, Mandsaur, Ujjain	Potato chips, flakes, potato fries, frozen foods, Ready to cook food, potato extruded snacks
Wheat	Indore, Ratlam, Ujjain, Mandsaur, Neemuch	Flour mills, bread & bakery, Pastas, Ready made chapatis, Wheat based alcohol fermentatopn
Pulses	Guna, Vidisha, Narsinghpur, Chhindwara	Polishing, packaging, pappadums, toasted pulses, snack mixes, Noodles, Dried soup mixes
Oranges	Chhindwara, Hoshangabad	Orange fruit processing, Juices, Squashes, Marmalades

Proposed Investment:

The total investment for a single 1000 acre farm is estimated around USD 0.2 mn or INR 1 crores.

Returns:

The project is estimated to generate an IRR of 20-22%

Coordinating Agency:

Department of Agriculture, GOMP